

## Message Text

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51

ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 OPIC-06 FEA-01 AGR-10 CEA-01

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XMB-04 OPR-02 /117 W

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R 141400Z AUG 75

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 7663

UNCLAS LA PAZ 5617

E.O. 11652: N/A

TAGS: EIND, EINV, BL

SUBJ: FOREIGN INVESTMENT CLIMATE AND DATE

REF: (A) STATE 165596 (B) LA PAZ 2576, APRIL 24, 1974

SUMMARY. FOLLOWING RESPONDS TO ANNUAL CIRCULAR QUESTIONNAIRE (REFTEL A) REGARDING CLIMATE OF FOREIGN INVESTMENT IN BOLIVIA BY UPDATING AND SHORTENING LAST YEAR'S SUBMISSION (REFTEL B). EMBASSY ALSO OFFERS FOR FIRST TIME ROUGH ESTIMATE OF SIZE OF FOREIGN INVESTMENT IN BOLIVIA. END SUMMARY.

1. BEGIN TEXT. FOREIGN INVESTMENT CLIMATE IN BOLIVIA HAS IMPROVED MARKEDLY IN RECENT YEARS, DUE TO BOLIVIA'S IMPROVED POLITICAL STABILITY AND ECONOMIC HEALTH. GOVERNMENT ENCOURAGES NEW PRIVATE INVESTMENT, BOTH DOMESTIC AND FOREIGN, AND LOCAL BUSINESSMEN GENERALLY WELCOME FOREIGN COOPERATION.

2. NONETHELESS, BOLIVIA HAS LONG HISTORY OF GOVERNMENT EXPROPRIATION OF PROPERTY, AND PRESENT GOVERNMENT REMAINS SENSITIVE TO FOREIGN INVESTMENT IN CERTAIN SECTORS,  
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RESERVING FOR PUBLIC SECTOR SOME INDUSTRIES (E.G. MINERAL

SMELTING) AND ENCOURAGING ARMED FORCES DEVELOPMENT CORPORATION INVESTMENT IN AGRICULTURE, MINING AND INDUSTRY. PRESENT GOVERNMENT HAS NOT REVERSED PREVIOUS NATIONALIZATIONS (ESPECIALLY AFFECTING GULF OIL, U.S. STEEL AND PHILLIP BROS.), BUT HAS WORKED OUT AND ADHERED TO COMPENSATION FORMULAS. ALTHOUGH CALVO DOCTRINE IS RECOGNIZED PART OF BOLIVIAN LAW, IN PRACTICE GOVERNMENT HAS GENERALLY ACCEPTED U.S. GOVERNMENT PARTICIPATION IN SETTLEMENT OF EXPROPRIATION DISPUTES.

3. BOLIVIAN LAW AND ITS PRESENT APPLICATION FAVOR INVESTMENT. 1971 INVESTMENT LAW, ADMINISTERED BY INSTITUTO NACIONAL DE INVERSIONES (INI), PROVIDES INCENTIVES FOR FOREIGN AND DOMESTIC INVESTORS WHO REGISTER WITH INI, BUT REGISTRATION NOT REQUIRED. OFFICIALS INDICATE LAW LIKELY TO BE AMENDED IN COMING MONTHS TO INCREASE INCENTIVES, ESPECIALLY TO ATTRACT NEW ASSEMBLY PLANTS. HYDRACARBONS LAW LIMITS INVESTMENTS TO SERVICE AND OPERATION CONTRACTS, BUT ITS INTENT IS TO ENCOURAGE EXPLORATION AND IT IS WELL ADMINISTERED.

4. AS MEMBER ANDEAN PACT, BOLIVIA IS SUBJECT TO PACT'S INVESTMENT CODE (DECISION 24). GOVERNMENT HAS PARTIALLY REGULATED CODE IN LAST YEAR EXEMPTING CERTAIN BANKING ENTERPRISES AND MAKING CLEAR THAT CODE WILL ONLY APPLY TO FIRMS INTENDING TO EXPORT TO OTHER PACT COUNTRIES. BOLIVIA IS SEEKING TO HAVE CODE GRANT SPECIAL ADVANTAGES TO BOLIVIA BUT FOR TIME BEING INVESTORS SHOULD ANTICIPATE THAT ALL ANDEAN PACT REGULATIONS WILL EVENTUALLY APPLY TO BOLIVIA.

5. IN 1974 GOVERNMENT REQUIRED PRIVATE FIRMS TO REINVEST AT LEAST 50 PERCENT OF PROFITS. DECREE (NO. 12047 OF DECEMBER 15, 1974) EXEMPTED (1) FIRMS WITH SPECIAL AGREEMENTS WITH STATE (IN PRACTICE ALMOST ALL LARGE INVESTMENTS), (2) PETROLEUM, GAS AND ENERGY SECTORS, WHICH COVERED BY SPECIAL LEGISLATION, AND INITIALLY (3) BY DEFINITION ALL OTHER FOREIGN INVESTMENTS. LATER DECREE (NO. 12405, APRIL 30, 1975) CLARIFIED THAT FIRMS ALREADY COVERED UNDER 1971 INVESTMENT LAW ARE FREE OF REINVESTMENT REQUIREMENT BY PROVISION OF LATER LAW WHICH EXEMPTS THEM FROM NEW TAXES FOR SEVEN YEARS. DECREE ALSO MADE CLEAR THAT ALL MUST MEET MINIMUM REINVESTMENT

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REQUIREMENTS OF DECISION 24. MOST PROGRESSIVE BUSINESSMEN HAVE LOOKED FAVORABLY ON NOVEMBER LAW BECAUSE IT ALSO ALLOWS FIRMS REDUCED INCOME TAX IF THEY REINVEST MORE THAN 50 PERCENT OF PROFITS. ACCORDING TO APRIL LAW FOREIGN FIRMS CANNOT TAKE THIS ADVANTAGE UNLESS REGISTERED WITH INI.

6. ALTHOUGH BOLIVIAN GOVERNMENT AND, TO LESSER EXTENT, PRIVATE SECTOR ARE INCREASING THEIR INVESTMENT, FOREIGN INVESTORS

HAVE BEEN SLOW TO RESPOND TO IMPROVED ECONOMIC CONDITIONS AND CHALLENGE OF ANDEAN PACT. THEY LIKELY AFFECTED BY SMALL MARKET, LABOR AND BUREAUCRATIC PROBLEMS COMMON TO UNDERDEVELOPED COUNTRIES AND BOLIVIA'S UNUSUALLY DIFFICULT TRANSPORT PROBLEM.

U.S. DOES HAVE "MOST-FAVORED-NATION" TREATY BUT NO DOUBLE-TAXATION TREATY WITH BOLIVIA. BOLIVIAN PESO IS FREELY CONVERTIBLE. END TEXT.

7. NO STATISTICS RE FOREIGN DIRECT INVESTMENT HAVE EVER BEEN PUBLISHED BY BOLIVIAN GOVERNMENT. INI HAS PROMISED TO PRODUCE SUCH INFORMATION AND EMBASSY WILL FORWARD IT IF AND WHEN RECEIVED. EMBASSY HAS MADE VERY ROUGH CALCULATION OF FDI AS GENERAL GAUGE FOR FUTURE REFERENCE. TOTAL IS SO SMALL AND NUMBER INVESTMENT SO FEW THAT INDIVIDUAL MISCALCULATIONS WOULD RESULT IN LARGE PERCENTAGE ERROR. WITH ABOVE CAVEATS WE ESTIMATE TOTAL PRESENT FDI IN BOLIVIA AT US\$ 75 MILLION. OF THIS US\$ 27.5 MILLION IN MINING, OF WHICH SLIGHTLY OVER HALF FROM U.S. TOTAL US\$ 35 MILLION HAS BEEN INVESTED IN LAST FEW YEARS IN PETROLEUM EXPLORATIONS; ALL BUT US\$ 5 MILLION BY U.S. COMPANIES. REMAINING INVESTMENTS IN SMALL INDUSTRY, COMMERCE AND LAND TOTAL US\$ 12.5 MILLION; JUST OVER US\$ 8 MILLION IS BY THIRD COUNTRIES AND SOMEWHAT LESS THAN US\$ 4.5 MILLION BY U.S. INVESTORS.  
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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
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**Decaption Date:** 01 JAN 1960  
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